

October 19, 2000

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Re: Boston Edison Company/Cambridge Electric Light Company/Commonwealth
Electric - Transition Default Service Tariff Filing

Dear Attorneys Keuthen and Werlin:

On October 11, 2000, Boston Edison Company, Cambridge Electric Light Company and Commonwealth Electric Company (together, the "Companies") filed with the Department of Telecommunications and Energy ("Department") proposed tariffs seeking to implement a market-based rate for default service⁽¹⁾ of \$0.0628⁽²⁾ per kilowatt-hour for the period beginning December 1, 2000, through December 31, 2000 (NSTAR Filing at 1). The Companies intend to establish rates for default service on a six-month cycle that will begin each April and October (id. at 4). As a transition to this cycle, the NSTAR Companies propose to charge the market cost described above for December and to file new tariffs for the period January through March 2001 to reflect market costs for that period (id.). In addition, the Companies' filing contains a plan to notify customers of these price changes, as required by the Department in Default Service Pricing and Procurement, D.T.E. 99-60-C at 6-7 (2000).⁽³⁾

On October 16, 2000, persons interested in this matter filed comments opposing certain features of the Companies' filing. Although we share the commenters' and Companies' concerns about recent increases in energy costs, we believe there is no true advantage to customers to continue to maintain default service prices below market rates.

In order to fully understand the immediate need for an increase in the price of default service, it is necessary to understand the underlying costs that distribution companies incur in making this mandated service available to their customers. It is also important to remember that default service is a pass-through; in other words, the distribution companies make no profit on its sale. Over the past twelve to eighteen months, there have been significant increases in the price of fuel oil and natural gas -- the fuels most frequently used to generate electricity. These increases in generating fuel costs result from national and international market forces beyond any of the Companies' control - indeed, in some respects beyond the control of our national government. The increases in electricity costs are part of a larger pattern of similar cost increases that have occurred in the gasoline, heating oil, and natural gas industries.⁽⁴⁾ Regrettable they may be; avoidable they are not.

Until now, default service prices have not increased in concert with these significant cost increases. This has resulted in a situation in which, over the past twelve months, the default service revenue received by distribution companies is significantly less than their default service costs. For example, Boston Edison Company's total default service cost

under-recovery is increasing at a rate of approximately \$10 million per month and would continue to accumulate if we do not correct this situation. These under-recoveries are placed in a deferral account to be recovered from customers at a future date, with interest.

Continuing to provide default service at prices that are below cost is problematic for three main reasons. The first, and possibly the most significant, problem is that the existence of default service prices that are below cost artificially impedes the development of a truly robust competitive market and the ability of competitive suppliers to develop products at prices that would attract customers. The competitive market and its efficiency benefits are the end-game, and the sooner we arrive there the better we are. In the absence of a broad range of competitive options, default service customers likely will remain on default service. Continuing to charge default service customers at prices below cost will perpetuate the under-recovery problem, potentially resulting in a debilitating spiral of increased deferrals. Second, at some point, the total amount of costs deferred for future recovery may grow to a level that would threaten the financial viability of the distribution companies. For example, we note the present possible solvency concerns such as those that cloud Pacific Gas and Electric and Southern California Edison (see Wall St. J., September 27, 2000, at A3). The longer-term interests of electricity consumers in the Commonwealth would not be well served by such a development. Third, as stated above,

any costs that are not recovered now will be recovered from all customers in the future, with interest, through an increase in their distribution rates, regardless of whether the customers received default service or not. This raises an inter-generational equity issue -- is it fair for future non-default service customers to see their rates increase in order to allow today's default service customers to pay prices that are below cost? To the greatest extent possible, the Department must ensure that prices are set at levels that require customers pay the costs incurred on their behalf. Future captive customers must be shielded from an inequity.

While the resulting price increases are not welcome, we believe it is the most appropriate policy course to allow the Companies to increase their default service rates to market-based rates at this time. The Companies have appropriately applied the customer notification requirements of D.T.E. 99-60-C, ensuring that all default customers will receive at least 30 days written notice via direct mail of the impending price changes. In addition, these new prices should be available on the Companies' Web sites and toll free telephone numbers immediately. Such advance notice will provide customers with some time to investigate competitive options as well as take steps to reduce consumption.

Sincerely,

James Connelly, Chairman

W. Robert Keating, Commissioner

Paul B. Vasington, Commissioner

Eugene J. Sullivan, Jr., Commissioner

Deirdre K. Manning, Commissioner

1. "Default service" denotes provision of electricity to those customers who are not receiving generation service either as part of standard offer service or from a competitive supplier. G.L. c. 14, §1B(d) and 220 C.M.R. § 11.02.

2. This rate is the average cost of power to be purchased from market suppliers in December, 2000 (NSTAR Filing at 2, App. A).

3. As part of our adoption of the recommendations of the Default Service Working Group with respect to customer notification for the initiation of market-based default service prices, the Department approved a review process by which the price will be allowed to go into effect if we do not initiate an investigation of a proposed default service rate within five business days of filing. Default Service Pricing and Procurement, D.T.E. 99-

60-C at 8-9 (2000). For example, Massachusetts Electric Company filed a default service tariff filing on October 6, 2000, which was allowed to go into effect without further investigation. It is necessary in this case to address the Companies' proposal because it departs from the requirements of D.T.E. 99-60-B.

4. The Department notes that distribution companies have also proposed increases in their standard offer prices because of the increase in their standard offer supply costs. See Massachusetts Electric Company Standard Offer Service Fuel Adjustment, D.T.E.

00-66, Fitchburg Gas and Electric Light Company Standard Offer Service Fuel Adjustment, D.T.E. 00-67, NSTAR Standard Offer Service Fuel Adjustment, D.T.E. 00-70.